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South Africa: Sanctions Update

Summary

After nearly 18 months in place, Western economic sanctions continue to have only a marginal effect on the South African economy and have had little impact on Pretoria's reform policies. South Africa enjoyed a modest economic recovery last year even though sanctions reduced non-gold export revenues by approximately 2.5 percent. Pretoria has been able to counter most of the potential effects of sanctions by finding new markets for many of its goods, using innovative trading practices and, in some cases, engaging in subterfuge to continue exporting to prohibited markets. In addition to the limited impact of sanctions, disinvestment by foreign firms has slowed and some firms are showing renewed interest in South Africa. Even if new sanctions are imposed this year, they are unlikely to lead Pretoria to modify its current racial policies. Over the long term, sanctions will hurt the South African economy, but not enough, in our view, to lessen Pretoria's resolve to maintain white power and privilege. [redacted] 25X1

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This typescript was prepared by [redacted] Africa Division, Office of African and Latin American Analysis. It surveys the economic--and to a lesser extent political--effects of sanctions [redacted] This paper has been coordinated with the Directorate of Operations. Comments and queries are welcome and may be directed to the Chief, Africa Division, ALA, [redacted]

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Recent South African Government actions--particularly the crackdown on black opposition groups earlier this year--have led to renewed calls in some quarters for additional economic sanctions against Pretoria[1]. At the same time, the controversy within the international community over the efficacy of sanctions has also intensified. Notwithstanding this debate, limited US and Western European economic sanctions against South Africa have been in place for almost 18 months, allowing for a relatively thorough examination of their actual impact and consequences. [redacted] 25X1

Sanctions and the Economy

Key economic indicators suggest that sanctions have had little effect on the South African economy in general. Real GDP grew by 2.6 percent last year, stimulated by a sharp increase in government expenditures and--secondarily--in private consumption. The foreign trade sector also performed well; exports totaled nearly $21 billion in 1987, compared with $18.4 billion in 1986. Capital outflow, including debt repayments to the IMF and foreign banks, were small in 1987, allowing Pretoria to rebuild its badly depleted foreign currency reserves. The current account surplus is now estimated at $3.2 billion, due mostly to higher dollar-denominated gold, platinum, and diamond prices, which pushed mineral revenues up by 14 percent. [redacted] 25X1

Impact on Trade. These relatively healthy overall statistics, however, mask the varied effects that sanctions have had on different sectors of the economy. (See Appendix A for details on the various sanctions.) Sanctions have hurt some industries, even though some targeted sectors of the South African economy have flourished. In addition, specific sanctions and the general stigma attached to trading with South Africa have slowed export growth, in our view, and actually resulted in a decline in non-gold exports. [redacted] 25X1

Most of the sanctions packages enacted in 1986 by the United States, EC, Japan, and the Nordic countries limited exports to South Africa, but the core measures in all of these packages were aimed at decreasing South African exports. By the end of 1986, the accumulated restrictions technically covered about 5 percent, or about $1 billion, of South Africa's total exports. Based on our analysis of available South African trade data, sanctions reduced non-gold exports by $500 million in 1987, or about 2.5 percent, even though total export revenues grew because of the higher gold, platinum, and diamond prices. Our estimates are consistent with other such calculations. In late 1987, for

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1 On 24 February 1988, the South African Government imposed new regulations that prohibit 18 prominent opposition organizations--including the United Democratic Front, South Africa's largest opposition group--from conducting political activities, although they technically retain their legal status. [redacted] 25X1

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example, the South African Reserve Bank completed a confidential study which concluded that sanctions currently in place had reduced the volume of South Africa's non-gold exports by about 3 percent. One of South Africa's leading economic consulting firms estimates a decline of nearly 2 percent in the level of real exports. [redacted] 25X1

This decline in non-gold exports becomes even more significant in light of the growth rate for these exports in previous years. For example, revenues from non-gold exports grew by 58 percent in 1985 and 22 percent in 1986, and we believe that South Africa could have continued to experience such export growth in a less hostile trading environment. [redacted] 25X1

The impact of sanctions on individual industries ranged from serious to none depending on prospects for market diversification and supply and demand conditions in each individual sector.

PERCENTAGE OF EXPORTS COVERED BY SANCTIONS[2]

Coal[3]	20
Base metals (iron and steel)	72
Textiles	17
Agriculture:	
Deciduous fruit	17
Sugar	23
Aluminum	25

There was little correlation between the percentage of exports of individual products theoretically affected by sanctions and the performance of the relevant industry, indicating that the scope of sanctions was not always the key factor in determining how a particular industry fared.

-- **Coal industry.** Export revenues for the South African coal industry have declined 21 percent during the last two years due to a combination of factors, including sanctions, low prices and new competitors. Estimated coal exports for 1987 were 40 million metric tons, down from the record 44.8 million metric tons in 1986. Sanctions on coal imports imposed by France, Denmark, and the United States forced the industry to find new customers for about 9 million metric tons. [redacted] 25X1 [redacted] about 4.5 25X1 million metric tons were sold on the European spot market at heavily discounted prices. Sanctions, lower coal prices, and labor strikes have led to the closure of some mines, reducing employment by about 8,000 from 1985 levels.

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2 The numbers in the table indicate the percentage of South Africa's exports that cannot now be sold to certain customers because of sanctions. [redacted] 25X1
3 Coal figure is based on 1986 data; all others are 1985 data [redacted] 25X1

-- **Steel, iron and aluminum industries.** These industries are very secretive about their trade data, but available information indicates that exports declined only slightly in 1987. The steel industry has apparently maintained its export volumes in large part by shifting to new markets and relying on long term contracts for continued sales to Europe and Japan. Sales to Japan have helped the aluminum industry more than offset the 25 percent of exports lost due to US sanctions. Other evidence, however, suggests that the industries have been harmed somewhat by their efforts to compensate for sanctions. Profits decreased significantly in 1987 and employment was reduced by about 1,300.

-- **Textile industry.** Textile exports fell by more than 4 percent in 1987, despite growth in both the third and fourth quarters. The textile industry is highly competitive internationally so the rising exchange value of the rand in 1987 may have contributed to the decline. Nevertheless, the decline was not commensurate with the percentage of exports covered under sanctions legislation.

-- **Agricultural Industry.** South Africa's agricultural exports increased by nearly 3 percent overall in 1987 due to favorable rainfall and stable long term grain contracts with Japan and Taiwan. The sugar industry lost 23 percent of its export market to US and Canadian sanctions but apparently made up most of the loss elsewhere, particularly in Japan. Loss of the premium price received under its US quota, however, cost the industry about $13 million. Deciduous fruit growers lost 17 percent of their market to sanctions but they also recovered much of the loss by selling to the EC and the Far East.

How South Africa Adjusted

Despite some highly publicized moves, including the creation of a "sanctions-busting" directorate within the Ministry of Trade and Industry, the South African Government has not concentrated on subverting Western sanctions. We believe the government initially contemplated retaliation, including a reduction in sales of strategic minerals, but, largely because of the limited nature of the sanctions, Pretoria for the most part chose to bypass them by shifting exports to new markets.[4]

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4 We have no evidence that South Africa is attempting to retaliate for sanctions by reducing exports to the West or the US of strategic minerals, which are not covered by sanctions.

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South Africa has targeted China and Taiwan as new or expanded trading partners because, in our view, the international sanctions debate has largely been ignored there. Press reports indicate that China-South Africa trade is flourishing via Hong Kong. In an effort to further develop trade ties between South Africa and China, Craig Williamson, a former South African intelligence officer and deputy chairman of a South African group of companies, chaired a symposium on the subject last November in Johannesburg. Williamson claimed that the initiative was being promoted by the private sector, but we believe it occurred with the government's blessing if not at its behest. South Africa's burgeoning trade with China has not harmed its well established links with Taiwan. Total trade between South Africa and Taiwan increased by more than 45 percent in 1987. [redacted] 25X1

South Africa is also seeking to strengthen trade ties with Turkey in an effort to tap that growing market. As an incentive, Pretoria recently reduced the import duties on all Turkish goods to 3 percent. The cut will price Turkish goods below those of South Africa's present trading partners. At the same time, South Africa may use its improved ties with Turkey to gain entry to both Eastern and Western European markets through Turkey's free trade zones, which permit goods to be reexported as "Turkish" products. [redacted] 25X1

Countertrade. South African exporters increasingly are exploring alternative trading schemes--particularly countertrade--in order to attract new trading partners to compensate for sanctions. Countertrade, which typically involves the exchange of one good for another, helps South Africa increase its trade with countries that lack hard currency, such as the Eastern European countries and China. South Africa had been slow to follow international trends toward countertrade, which reportedly accounts for at least 25 percent of all world trade, but it is now likely to embrace countertrade if only to maintain access to markets not covered by sanctions. [redacted] 25X1

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Sanctions Evasion. Although Pretoria has for the most part diffused the potential impact of sanctions by redirecting trade, South African businessmen have occasionally employed subterfuge and exploited loopholes to preserve sanctions-affected Western markets for some of their goods. This is particularly true of South African exporters of primary products used in manufacturing by industrialized countries in as much as they are faced with limited alternative markets. In many cases, South Africa has disguised the point of origin of its goods and exported them through third countries, resulting in some unusual, new trading

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patterns. We know or suspect that the following trading patterns represent attempts by South Africa to use third parties to continue selling sanctioned goods to the West.

-- Exports of steel from Saudi Arabia to the US increased 8-fold in value and more than 11-fold in volume from 1986 to 1987.

-- Exports of shellfish (lobsters) from the Cayman Islands to the US have risen from $7.6 million in 1986 to $24.1 million in 1987. According to the US Customs Service, South African fishing boats have been reregistered in the Caymans, allowing the South African lobsters to be legally exported as products of the Cayman Islands.

-- Since November 1986, Mozambique, which has no steel production capability, has exported 557 metric tons of steel to the United States. In addition, Japan has imported 2,241 metric tons of steel from Mozambique and Swaziland since December 1986. West German imports of steel from Taiwan in 1987 increased 20 fold in value and more than 50 fold in volume over the totals for 1986. 25X1

Pretoria has also used subterfuge and loopholes to evade the small number of embargoes on Western exports to South Africa. South Africa, for example, apparently has evaded Denmark's total trade embargo by using Malawi as a front. According to press reports, Danish exports of technical instruments to Malawi increased more than 40 fold following the imposition of the trade ban in 1986--from $23,174 in the first quarter of 1986 to over $1 million in the first quarter of 1987. Danish exports to Malawi of "miscellaneous manufactured goods" rose from $20,800 to $1.32 million during the same period. Similarly, Sweden's total trade embargo on Pretoria has also failed to prevent Swedish goods from reaching South Africa as Swedish corporations have continued to do business with South Africa through their foreign subsidiaries. 25X1

The South Africans have most often employed subterfuge in obtaining computers for government use and in these dealings they apparently have received the cooperation of several Western firms. Most Western governments and Japan ban the sale of computers to the South African military and apartheid-related agencies of the Pretoria government.

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Disinvestment

Like sanctions, disinvestment from South Africa by foreign firms--although not formally mandated by sanctions packages--has represented a way of applying economic pressure on Pretoria. In recent months, however, the exodus of foreign companies from South Africa has slowed, and some companies are even expressing renewed interest in doing business in South Africa. According to press reports, 41 foreign firms have been granted permission to set up factories in South Africa this year. These firms, whose potential investments are valued at more than $10 million, reportedly include companies from Israel(4), Hong Kong(11), Taiwan(21), Italy(3), and the UK(1). [redacted] 25X1

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Disinvestment by US firms, however, has continued at a steady pace. In 1987, 36 US firms sold their South African operations, reducing US direct investment from an estimated $3.2 billion at the end of 1984 to just over $1 billion at the end of 1987. Most departing firms, however, have made arrangements to ensure that their products or services remain available in South Africa by selling their operations either to their South African managers with an accompanying distribution or licensing agreement, or to another, often competing, South African company. These arrangements generally have prevented foreign firms from easily and cheaply replacing US firms. [redacted] 25X1

Nevertheless, some foreign firms have profited from the withdrawal of US firms from the South African market. [redacted] 25X1

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Political Impact

International economic sanctions have had limited political impact in South Africa. Pretoria has continued to defy calls for greater racial reform even in the face of sanctions. Although South Africa's ability to counter the affects of sanctions accounts in part for its defiant attitude, we believe that the current government's domestic political concerns, particularly the growing influence of the right-wing Conservative Party, coupled with its determination to retain white power and privilege dictate its policies. Sanctions generally have helped warm US relations with blacks, in our view, but blacks on both ends of the political spectrum still remain critical of US policy toward South Africa. [redacted] 25X1

Sanctions have further poisoned South African white perceptions of the West, although the government is divided about the "benefits" of international isolation. Some officials, including President Botha and Defense Minister Malan, increasingly view the West--and the United States in particular--as dangerous and unreliable [redacted] 25X1 [redacted] Other South Africans, 25X1 including many senior officials in the foreign and finance ministries, are less sanguine about South Africa's estrangement from the West and the long-term costs of its pariah status. We believe that this latter group has on occasion moderated government policies to prevent further isolation. Such moderates, however, have been and probably will continue to be unable effectively to argue their case for more ambitious reform policies. [redacted] 25X1

Although South African black opposition leaders publicly support sanctions and have urged additional Western measures in the wake of the February crackdown, some have private views on the issue that are often less clear-cut. For example [redacted] 25X1 [redacted] the Congress of South African Trade Unions, 25X1 South Africa's largest labor federation, recently sent a message to key US supporters reaffirming its support for comprehensive, mandatory UN sanctions. COSATU, however, subsequently sent a second message containing a shorter list of sanctions which did not include boycotts on South African trade. In a similar move, the South African Bus and Taxi Association, one of the most prominent black business organizations, recently sent representatives to the United States to argue against the imposition of additional sanctions. [redacted] 25X1

[redacted] 25X1

Outlook

Despite the renewed calls for sanctions in some quarters as a result of Pretoria's increasingly repressive policies, most Western governments appear to be resisting the application of additional economic pressure. Even if additional economic sanctions are imposed, Pretoria, in our view, will continue to formulate its policies based on its interpretation of domestic political interests; sanctions themselves, therefore, are unlikely to force President Botha to consider new reforms or--conversely--to become more repressive. [redacted] 25X1 25X1

On the economic front, real GDP is expected to grow between 2 and 3 percent in 1988, marking the second year of modest economic recovery in South Africa. New sanctions that target one or two additional South African industries are unlikely to reduce economic growth significantly. In addition, the dampening impact that sanctions have had to date on export sales is likely to diminish somewhat as South African exporters adjust and find more new markets. [redacted] 25X1

South Africa is unlikely to experience any foreign exchange problems this year, but its balance of payments could tighten if the economy continues to grow. A stronger domestic economy would lead to an increase in imports by South Africa. Foreign exchange problems could then ensue if a rising exchange rate and lower gold prices precluded South Africa from significantly increasing its export revenues. [redacted] 25X1

Despite the likely minimal short-term impact of sanctions on the economy, sanctions and related disinvestment campaigns will remain one of the factors preventing South Africa from enjoying vigorous economic growth. South Africa needs at least a 5 percent annual economic growth rate to support large-scale social programs for blacks and to reduce black unemployment. South African Government officials admit, however, that their efforts to counter sanctions have led to some economic inefficiencies and dislocation. South African exporters, for example, have maintained their foreign markets by offering discounts that erode their profitability. More important, South Africa's inability to attract large amounts of foreign capital will likely continue to damage long-term economic prospects. These effects, however, will only occur gradually and probably will not lessen Pretoria's resolve to maintain white power and privilege. [redacted] 25X1

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Appendix A: Sanctions Scorecard

United States

The Comprehensive Anti-Apartheid Act of 1986 (CAAA) imposes the following restrictions on economic relations between the United States and South Africa:

1. Bans the import of South African coal, textiles, iron, steel, agricultural products and foodstuffs.
2. Prohibits South African aircraft from landing in the United States and US aircraft from landing in South Africa without the permission of the Secretary of Transportation.
3. Bans all new US investment in South Africa.
4. Bans the import of any products from South African public corporations (parastatals) except andalusite, antimony, asbestos and chrysolite, chromium and ferrochromium, cobalt, industrial diamonds, manganese (including ferromanganes and ferrosilicomanganese), platinum group metals, rutile, vanadium and ferrovanadium.
5. Bans all loans to the South African Government and its agencies.
6. Ends the double taxation agreement.
7. Bans the export of computers, software and services to the South African military, police and apartheid-related agencies of the government.
8. Bans the export of nuclear technology and materials.
9. Prohibits US Government agencies from promoting South African tourism.
10. Makes permanent the existing ban on krugerrand imports.
11. Prevents US crude oil and coal exports to South Africa.

In December 1987, the Congress passed the Rangel Amendment, which denies US tax credits on income earned by US citizens or corporations operating in South Africa and also denies deferral of US tax on the South African income of a US controlled foreign corporation.

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EEC

In September 1986, the European Economic Community adopted a package of sanctions measures that:

1. Bans imports of South African iron, steel, and gold coins.

2. Asks member countries voluntarily to end new investments in South Africa.

JAPAN

Japan first imposed sanctions in 1965 which included bans on direct investment, bank loans, and weapons sales; it recently added bans on import of gold coins and sales of computers to the South African police and military. Last year Japan:

1. Banned import of South African pig iron and certain types of finished steel, although existing contracts are exempt.

2. Prohibited South African aircraft from landing in Japan.

3. Stopped issuing tourist visas to South Africans.

4. Prohibited Japanese civil servants from flying on South African aircraft.

COMMONWEALTH

At the Commonwealth mini-summit in 1986, six countries (Australia, Bahamas, Canada, India, Zambia, and Zimbabwe) adopted a package of sanctions that included:

1. Bans on airlinks to South Africa.

2. Prohibitions on new investments in South Africa.

3. Bans on imports of agricultural products.

4. Termination of the double taxation agreement.

5. Termination of all government assistance to, investment in, and trade with South Africa.

6. Bans on all government procurement in South Africa.

7. Bans on government contracts with majority owned South African companies.

8. Bans on promotion of tourism.

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9. Bans on all new bank loans to South Africa

10. Bans on the import of uranium, coal, iron and steel.

11. Withdrawal of all consular facilities.

The UK accepted only voluntary bans on new investments and the promotion of tourism. Adoption of the package by the other Commonwealth nations has not been universal--Zambia and Zimbabwe have not yet severed airlinks with South Africa.

NORDIC COUNTRIES

Denmark banned practically all trade in goods and services with South Africa and Namibia in 1986. Exceptions to the law include non-commercial shipments, goods entirely for medical purposes, and shipping. Sweden banned all imports and exports of goods and services with South Africa and Namibia in 1987. Exceptions would be considered on a case-by-case basis. Norway prohibited trade with South Africa and Namibia in 1987. Exceptions include medicine, medical equipment and printed matter.

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Appendix B: Sanctions and the Frontline States

Since Presidents Kaunda of Zambia and Mugabe of Zimbabwe were forced to back down on highly publicized commitments to impose sanctions during the last few months of 1986, the Frontline States[5] have been generally quiet on the question of sanctions. The degree of linkage to South Africa's economy remains the major determinant of policies by the neighboring states. With the notable exception of Zambia, which has routed most of its export traffic through Dar es Salaam, the Frontline States have failed to reduce significantly their dependence on South Africa for trade and transportation. Moreover, Botswana, Lesotho, Mozambique, and Swaziland still believe that their economic future is closely linked to South Africa's. [redacted] 25X1

Pretoria views the threat of countersanctions against its neighboring states as an effective means of deterring additional sanctions by either the neighbors or the West. Nevertheless, we believe the considerable economic benefits South Africa reaps from its regional economic relations make it unlikely it would follow through on this threat, except in the most extreme circumstances. For the foreseeable future, the South African Government will act to bolster ties with neighboring states and encourage South African businesses to increase investment in the Frontline States. [redacted] 25X1

Trade and Transport Dependency of Neighboring States

Botswana

-- Transport via South Africa: 80-90 percent of trade.
-- Imports from South Africa: 80-90 percent either originate in, or transit South Africa, including all petroleum, 80 percent food, and most consumer goods.
-- Exports to South Africa: Over 25 percent of non-diamond trade.
-- Other: 45,000-50,000 migrant jobs, including 19,000 in the mines; 20 percent of government revenues from Southern African Customs Union; dominant investor in mining. [redacted] 25X1

Mozambique

-- Transport via South Africa: none.
-- Imports from South Africa: Third in importance after US and USSR; principal source of machinery and raw materials.
-- Other: Principal source of foreign exchange from transit fees through Maputo, and 150,000 migrant jobs, including 51,000 in mining; $30 million in investment; 60 percent of Maputo's electricity. [redacted] 25X1

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5 The Frontline States are Angola, Botswana, Mozambique, Tanzania, Zambia and Zimbabwe. [redacted] 25X1

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Lesotho

-- Transport via South Africa: All overseas trade.
-- Imports from South Africa: 97 percent of total.
-- Other: 140,000-150,000 migrant, 108,000 in mining, about three-fourths of Lesotho's formal employment.

Swaziland

-- Imports from South Africa: 90 percent originate in or transit through South Africa, including all petroleum, wheat, and processed food, one-third of corn, and most consumer goods.
-- Exports to South Africa: one-fourth of total.
-- Other: 25,000-30,000 migrant jobs, including 13,000 in mining; Fifty percent of government revenue from Southern African Customs Union; all railroad rolling stock on lease from South Africa; two-thirds of electricity supplies; $200 million in direct investment. [redacted] 25X1

Zambia

-- Transport via South Africa: Insignificant since Nov. 1986.
-- Imports from South Africa: About one-third of total, including 40 percent of mining supplies, machinery and equipment.
-- South African firms own 27 percent of Zambian mining; investment in suppliers of machinery, equipment and parts. [redacted] 25X1

Zimbabwe

-- Transport via South Africa: about 50 percent of trade.
-- Exports to South Africa: About 10 percent of total, but 50-70 percent of manufactured goods.
-- Imports from South Africa: 15-20 percent of total, including all coking coal, drill steel for mining, base oils and lubricants, and animal vaccines, most crude fertilizers, explosives and iron and steel products.
-- Other: 50 commercial airline flights weekly; 40-50 percent of tourist revenue, about $30-35 million annually; South African companies own many of Zimbabwe's largest firms, including breweries and hotels. [redacted] 25X1

Malawi

-- Transport via South Africa: 90 percent of total trade.
-- Imports from South Africa: 35-40 percent, including all petroleum.
-- Other: 35,000 migrant worker, including 19,000 in mining; police and military equipment and training. [redacted] 25X1

Zaire

-- Transport via South Africa: 40-50 percent of copper and cobalt exports.
-- Imports from South Africa: 75-80 percent of the Shaba mining region's food, consumer goods, industrial explosives and chemicals.
-- Other: One-third of railroad rolling stock on lease from South Africa. 25X1

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